

Regional Dialogue
Proposed Framework for Sales of Environmentally-
Preferred Power (EPP) and Renewable Energy
Certificates/Credits (RECs) Post-2011
10/09/07



Issues Addressed

Overall

- This presentation addresses an approach for the sales of Environmentally-Preferred Power (EPP) and Renewable Energy Certificates/Credits (RECs) post-2011

Background

- Current EPP Program
- Connection to Regional Dialogue Policy
- Proposed Principles

Proposal

- EPP
- RECs

Alternatives Explored

Contract Principles

Conclusion



Background

Subscription

- **General Description.** Under the current Subscription contracts customers can elect to have a portion of their purchase assessed a Green Energy Premium or "GEP". In exchange, a portion of the customer's system power purchase is deemed to be from renewable resources. Customers also receive an equivalent amount of environmental attributes from specified renewable resources.
- **Term.** Commitment terms range from one year to an entire rate period.
- **Pricing.** The GEP price range (currently \$0-\$40) is set in the rate case, while the specific charge a customer pays is set by the pricing desk at the beginning of the rate period. The premium for EPP in FY 2007-09 is \$10.50/MWh.
- **Inventory and Availability.** BPA currently offers 80% of its environmental attribute inventory as forward EPP sales. BPA offers any remaining inventory as short-term sales (1-year maximum) first as EPP and then as RECs. RECs are offered to the open market at market prices or, if there are multiple bids, to the highest bidder. Customers requesting EPP by 9/30/06 have priority access to the EPP for the subsequent rate period in contractually specified amounts.
- **Contract.** EPP contract terms are typically contained in Exhibit A of a customer's Subscription contract. Because environmental attributes are derivatives, not power, REC sales are executed through independent bilateral contracts.



Background, continued...

Regional Dialogue Policy

- The policy states the following: “BPA will continue its existing practice of reinvesting Green Energy Premiums from currently existing Federal renewable resources in renewable RD&D projects and education programs. BPA will revisit the efficacy of this spending prior to each rate period. Green Energy Premiums derived from the sale of attributes generated by renewable resources acquired after April 1, 2007 that are part of FBS augmentation will be used to offset the Tier 1 rate impacts of these purchases.” In addition, BPA expects to acquire new renewable resources to serve load at Tier 2 rates.

BPA Tier 2 Rate Alternatives

- The specific renewable resource vintage Tier 2 rate and the renewable Tier 2 rate will include the environmental attributes (RECs) from the renewable resources whose costs form the basis for each rate.
- BPA proposed not to include the environmental attributes of resources acquired to meet BPA’s load serving obligations under the other (non-renewable) Tier 2 rate alternatives (the short-term Tier 2, (non-renewable resource) vintage Tier 2, and Load Growth Tier 2).
 - The cost of these resources would be offset by the separate sale of the environmental attributes.



Principles for EPP and REC Sales

1. EPP will be Available to Requirements Customers (except for Slice amounts). Environmental attributes from Federal resources used to establish Tier 1 rates (including augmentation purchases) and environmental attributes not specifically bundled with the energy from resources used to establish Tier 2 rates will be offered as EPP to all requirements customers.
2. Tier 2 Alternatives that Include Environmental Attributes. BPA's current proposal is to bundle environmental attributes with renewable Tier 2 rates and specific vintage renewable Tier 2 rates. Additional information about these arrangements is available in the BPA Tier 2 Framework presentation.
3. EPP Commitment Term. Customers may commit to purchase EPP annually or on a rate period basis with a first right of refusal in a subsequent rate period for the average of the quantity purchased during the previous rate period.
4. Pricing. Pricing of EPP will be made on a rate period by rate period basis and will be an estimate of market value. A price range will be set in each rate case.
5. When Demand Exceeds Supply. BPA will reduce oversubscription of EPP during a rate period using a pro rata allocation formula applied fairly to all EPP purchase requests. (After taking into account first rights of refusal existing EPP purchasers have for subsequent rate periods).
6. When Supply Exceeds Demand. Any environmental attributes not sold as EPP will be sold on the open market as RECs at prices and terms determined by the Bulk Hub.
7. EPP and the Rate Credit Program in FY 2010-11. Beginning in FY 2010, BPA will likely recommend that EPP not be eligible for the Renewable Rate Credit. REC eligibility for the Renewable Rate Credit is yet to be determined.
8. Resale of EPP. Environmental attributes associated with EPP can not be transferred or resold; they are for retail customer marketing.



Proposed Framework: EPP

- **Inventory.** Environmental attributes from “existing” Federal renewable resources, Tier 1 augmentation, and acquisitions for Tier 2 that are not affiliated with the Tier 2 rate.
- **EPP in First Rate Period.** Consistent with Exhibit A in BPA’s existing Subscription contracts, qualifying purchasers of EPP in the FY 2010-2011 rate period will have first priority access to EPP for FY 2012-2013 in an amount equal to the lesser of the amount contractually committed to prior to the rate period or the average of their purchase over the FY 2010-2011 rate period, plus 30% of that lesser amount (the incremental 30% increase is subject to availability). The commitment term of these arrangements will be just one rate period (*i.e.*, FY 2012-2013), and will not include a first right of refusal for the next rate period. EPP inventory beyond these arrangements will be made available to *all* Tier 1 customers for a rate period term, with a first right of refusal in the subsequent rate period.
- **EPP in Subsequent Rate Periods.** Prior to the end of the first rate period under the Regional Dialogue contracts, BPA will assess the amount available inventory and offer 80%* of that amount to customers purchasing power at Tier 1 rates. When there are more requests for EPP than available inventory, BPA will pro-rate requesters’ amounts to match available inventory. If there is surplus inventory, it will be offered as RECs on the open market at terms and prices determined by the pricing desk.

* Note BPA’s existing risk policies limit BPA’s forward sales of environmental attributes to 80% of projected inventory.



Proposed Framework: EPP, continued

- **Term.** EPP commitments on a forward basis will be capped at the term of the rate period.
- **Notice Requirements.**
 - Amounts purchased in prior rate period: EPP purchasers in one rate period must notify BPA of the amount that they wish to purchase in the subsequent rate period prior the start of the new rate period and any amounts these purchasers choose not to purchase become available for new purchasers.
 - New purchases: Customers that wish to purchase new or additional amounts of EPP must also notify BPA of the amount they wish to purchase prior to each rate period.
 - The exact timing of these notice requirements has yet to be determined.
 - If the new purchase requests exceed available inventory, the new purchasers' requests will be reduced from the requested amounts on a pro rata basis.
- **Price Adjustments.** BPA will reset the floor and cap for EPP prices in each rate case. Prior to the start of each rate period BPA's pricing desk will set a specific EPP price for the rate period .



Proposed Framework: Surplus inventory

Remaining Inventory

- Each year, BPA will assess how much inventory it has available (*i.e.*, not already committed to either through Tier 1 GEP for EPP or Tier 2 renewable rate alternatives).
- Available inventory will offered first as EPP—to purchasers of power at Tier 1 rates at the Tier 1 GEP.
- Remaining inventory would be then offered to the open market as RECs at prices and terms determined by the pricing desk.



Revenues

Tracking the Revenues from the Sale of Environmental Attributes through EPP and REC Sales

- BPA will track the sales and revenues of environmental attributes, total up the income generated by their sales, and credit the following cost categories in proportion to their contribution to environmental attributes inventory:
 - 1) revenues from environmental attributes sales associated with renewable resource acquisitions to meet load *above* HWM are netted against the cost of those resources;
 - 2) revenues from environmental attributes sales associated with renewable resource acquisitions for Tier 1 augmentation (including acquisitions made after April 1, 2007) are netted against the cost of those resources; and
 - 3) revenues from environmental attributes sales associated with “existing” resources acquired before April 1, 2007 are reinvested into RD&D projects and education programs.



Alternatives Explored...

BPA explored two variants of the framework proposed above.

1. **Availability.** BPA would first offer EPP to those requirements customers that must meet statutory requirements for either Renewable Portfolio Standards or Green House Gas Emissions Reductions. After making this offer, BPA would open EPP to all requirements customers.
2. **Pricing.** BPA would grandfather in the current price for EPP associated with “existing” renewable resources, \$10.50. It would average this value with the market value of additional green attribute inventory associated with Tier 2 augmentation and acquisitions to meet load above HWMs that is not affiliated with a Tier 2 rate alternative.



Contract Principles

- Environmentally Preferred Power will not be offered in the Regional Dialogue contracts when they are executed in 2008, though there will be placeholder contract language. This language is intended to capture the following principles:
 - Under the Subscription contracts, some Subscription customers will have the right to a certain amount of EPP through FY 2011 that will inform their right to EPP in FY 2012.
 - Available inventory amounts of EPP will not be known until the FY 2012 rate case; customers will need to notify BPA prior to each rate period of the amount of EPP they wish to purchase prior to power deliveries in FY 2012.
 - Term will be capped at the duration of the rate period.
 - When demand for EPP exceeds supply, a formula for pro rata allocation will be applied.



Conclusion

Questions? Comments?

Next steps...

